

Message Text

PAGE 01 STATE 122758
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SUBJECT: MEETING OF DONORS TO SUPPLEMENT IMF AGREEMENT
WITH JAMAICA

REFTEL: KINGSTON 1150
CONFIDENTIAL

PAGE 02 STATE 122758

1. ON MAY 11 THE U.S. EXECUTIVE DIRECTOR OF THE IMF/WORLD
BANK ASSEMBLED A MEETING AT THE IMF TO DISCUSS THE IMF STA-
BILIZATION PROGRAM FOR JAMAICA. HE POINTED OUT THAT FOR
THE PROGRAM TO WORK JAMAICA WILL NEED U.S. \$50 TO \$70
MILLION ANNUALLY IN FOREIGN EXCHANGE FLOWS IN ADDITION TO
ALL PRESENT AND ANTICIPATED FLOWS. THESE SUMS WILL BE NEED-
ED FOR AT LEAST TWO YEARS AND POSSIBLY THREE. THE FOLLOW-
ING DISTRIBUTION WAS SUGGESTED BY THE U.K. A TOTAL OF \$68
MILLION: U.S. \$12 MILLION, JAPAN \$10 MILLION, U.K. \$8
MILLION, CANADA \$8 MILLION, AND \$5 MILLION FROM VENEZUELA,

TRINIDAD, FRANCE, GERMANY, NETHERLANDS, AND NORWAY. U.K. IS PREPARED TO CONTRIBUTE ITS \$8 MILLION. NO OTHER COUNTRY WAS PREPARED TO COMMIT FOR OR AGAINST ALTHOUGH THERE WAS TOTAL LACK OF ENTHUSIASM FOR CONTRIBUTIONS BY THOSE PRESENT. GROUP WILL MEET AGAIN JUNE 1 TO ACTUALLY PLEDGE FUNDS. JAMAICA DELEGATION LEAD BY FINANCE MINISTER ERIC BELL JOINED GROUP FOR LAST HALF HOUR TO MAKE FORMAL PRESENTATION AND RESPOND TO QUESTIONS PRIOR TO INDIVIDUALS CONTACTING THEIR CAPITOLS.
END SUMMARY.

2. U.K. IMF DIRECTOR, WILLIAM RYRIE, CALLED MEETING ON AFTERNOON OF MAY 11 AT IMF TO DISCUSS THE NEW JAMAICAN STANDBY ARRANGEMENT WITH THE FUND. THE DRAFT LETTER OF INTENT WAS DISTRIBUTED. MEETING WAS DIVIDED INTO TWO PARTS, A DISCUSSION AMONG POTENTIAL DONORS AND A DISCUSSION OF DONORS WITH JAMAICAN FINANCE MINISTER ERIC BELL.

3. RYRIE OPENED MEETING BY SAYING ITS OBJECTIVE WAS TO GATHER A GROUP OF COUNTRIES WHO WOULD BE WILLING TO PROVIDE ADDITIONAL RESOURCES TO JAMAICA. HE POINTED OUT THAT THE NEW IMF AGREEMENT WAS A THREE YEAR PROGRAM BUT WAS LACKING, CONFIDENTIAL

PAGE 03 STATE 122758

ESPECIALLY IN THE FIRST TWO YEARS, THE NECESSARY FOREIGN EXCHANGE RESOURCES TO ACHIEVE ITS OBJECTIVE. THE FOREIGN EXCHANGE SHORTFALL IN EACH OF THE FIRST TWO YEARS WAS BETWEEN U.S. \$50 MILLION AND \$70 MILLION. RYRIE STATED THAT THE U.K. WAS WILLING TO CONTRIBUTE AND HE HOPED OTHERS WOULD. HE THEN TURNED THE MEETING OVER TO DAVID FINCH OF THE IMF STAFF.

3. DAVID FINCH PRESENTED THE ECONOMIC ASPECTS OF THE PROGRAM AS LAID OUT IN REFTEL. FINCH NOTED THE SERIOUSNESS OF THE NECESSARY ADJUSTMENT. THE PROGRAM WILL RESULT IN A REAL WAGE CUT OF 20 PERCENT. UPON INSTITUTION OF PROGRAM PRICES ARE EXPECTED TO RISE 20 PERCENT IN THE FIRST TWO MONTHS AND ANOTHER 20 PERCENT BY THE END OF THE FIRST YEAR OF THE PROGRAM. WAGES ARE TO RISE AT NO MORE THAN 15 PERCENT DURING THE FIRST YEAR OF THE PROGRAM. THRUST OF THE PROGRAM IS TO CUT CONSUMPTION AND INCREASE PUBLIC AND PRIVATE INVESTMENT. TO INDUCE THE LATER, CONTROLS OVER PRIVATE SECTOR PRICES WILL BE RELAXED OR RADICALLY ALTERED TO ALLOW REAL COSTS AND PROFITS TO BE REFLECTED IN PRICES. TO ACHIEVE THIS RADICAL PROGRAM AND STILL BUILD IN REAL ECONOMIC GROWTH IN THE ECONOMY IT WAS NECESSARY TO PLAN INTO THE PROGRAM A \$50 MILLION TO \$70 MILLION FOREIGN EXCHANGE GAP. INITIATION OF PROGRAM IS EXPECTED TO RAISE UNEMPLOYMENT IN THE FIRST FEW MONTHS BUT THIS WILL BE COMPENSATED AS GROWTH BEGINS TOWARD END OF FIRST YEAR. WITH 25 PERCENT UNEMPLOYMENT, THE POLITICAL STRAIN WAS SEEN TO BE SEVERE. IT IS HOPED THAT IN THE FIRST YEAR OF STABIL-

ZATION, CONSUMER GOODS WILL AGAIN BECOME AVAILABLE AND THE NECESSARY PARTS AND RAW MATERIALS FOR INDUSTRIAL PRODUCTION. IT IS HOPED THAT BY THE END OF THE FIRST YEAR INDUSTRIAL PRODUCTION WILL HAVE RECOVERED TO THE POINT THAT PRESENT SPARE CAPACITY WILL BE PRODUCTIVELY UTILIZED. DURING THE SECOND YEAR, PRIVATE SECTOR INVESTMENT IS EXPECTED TO PICK UP. HOWEVER, THE INVESTMENT PLANS MUST BE COUPLED WITH EXPECTATION THAT FOREIGN EXCHANGE WILL BE AVAILABLE.
CONFIDENTIAL

PAGE 04 STATE 122758

THEREFORE, THE INTERNATIONAL GAP FILLING EXERCISE, THE \$50 MILLION TO \$70 MILLION, MUST BE ANNOUNCED AS A TWO YEAR EXERCISE. THE FOREIGN EXCHANGE THE FIRST YEAR WILL BE USED FOR ESSENTIAL CONSUMER GOODS, PARTS AND RAW MATERIALS. DURING THE SECOND YEAR IT IS SEEN AS BEING USED FOR PUBLIC AND PRIVATE SECTOR INVESTMENT. IF THE GAP WAS NOT FILLED, IT IS ASSUMED THAT JAMAICA WOULD HAVE CLOSE TO A ZERO OR POSSIBLY NEGATIVE GROWTH RATE WITH LITTLE IMMEDIATE CHANCE OF PULLING OUT OF THE ECONOMIC DULDRUMS.

4. AFTER THE FINCH PRESENTATION, VARIOUS QUESTIONS OF CLARIFICATION WERE ANSWERED BY THE IBRD AND IMF STAFF. GIVEN THAT COUNTRY REPRESENTATIVES RECEIVED THE DRAFT LETTER OF INTENT AT THIS MEETING AND THE IMF REPORT IS NOT PUBLISHED, THE QUESTIONING WAS OF A RATHER BROAD AND GENERAL NATURE. RYRIE CLOSED THE DISCUSSION WITH A SUMMARY STATEMENT ON THE IMPORTANCE OF THE GAP FILLING EXERCISE.

5. RYRIE THEN MADE THE FOLLOWING SUGGESTIONS FOR CONTRIBUTIONS FOR A FUND TOTALING \$68 MILLION: JAPAN \$10 MILLION, U.S. \$12 MILLION, U.K. \$8 MILLION, CANADA \$8 MILLION, AND \$5 MILLION EACH FOR VENEZUELA, TRINIDAD, FRANCE, GERMANY, NETHERLANDS AND NORWAY. RYRIE STRESSED THAT WHILE THESE WERE ANNUAL FIGURES, IT WOULD BE NECESSARY TO COMMIT FOR AT LEAST TWO YEARS. RYRIE NOTED THAT THE U.K. WAS READY TO COMMIT ITS \$8 MILLION FOR TWO YEARS. RYRIE EXPLAINED THAT THE HIGHER FIGURE FOR JAPAN REFLECTED THE FACT THAT JAPAN HAD NOT PROVIDED FUNDS BEFORE AND PRIME MINISTER FUKUDA'S COMMITMENT TO INCREASE JAPANESE AID FLOWS.

6. THE OTHER COUNTRIES AT THE TABLE RESPONDED VERY COOLY. CANADA SPOKE OF ITS \$25 MILLION BALANCE OF PAYMENTS LOAN
CONFIDENTIAL

PAGE 05 STATE 122758

EXTENDED IN 1976 AND HOW THEY ROLLED THIS LOAN OVER THREE TIMES AND WOULD DO SO AGAIN IN AUGUST. THEY MIGHT AT THIS TIME CONVERT THE LOAN TO LARGER TERM MATURITIES. GERMANY NOTED THAT THIS WAS AN INFORMAL MEETING AND THEY WERE PRESENT IN THAT STATUS. THEIR ACCEPTANCE OF THE BRITISH INVITATION DID NOT MEAN AN ACCEPTANCE OF AN OBLIGATION. THE

FRENCH REITERATED THIS STATEMENT ADDING THAT A FRENCH COMMITMENT AT THIS TIME WAS A BUDGETARY IMPOSSIBILITY. TRINIDAD STATED IT WAS COMMITTING FUNDS TO A BROADER CARIBBEAN CONCEPT AND WHILE SOME OF THESE FUNDS MIGHT GO TO JAMAICA THEY WERE NOT NECESSARILY EARMARKED. THE JAPANESE DELEGATE SAID THAT HE HAD NO INSTRUCTION FROM TOKYO. THE AMERICAN DELEGATE (MEISSNER, DEPARTMENT OF STATE) SAID THAT THE U.S. GOVERNMENT WOULD STUDY THE IDEA SERIOUSLY BUT WE WOULD NEED THE FUND DOCUMENT AND A BETTER UNDERSTANDING OF THE ECONOMIC PROGRAM PRIOR TO MAKING ANY COMMITMENTS EITHER FOR OR AGAINST THE IDEA. RYRIE DECIDED AT THIS POINT TO

CUT OFF DISCUSSION BEFORE HE HAD A "DEPLEDGING" SECTION ON HIS HANDS.

7. THE GROUP TURNED TO A DISCUSSION OF WHEN TO MEET NEXT. RYRIE HOPED GROUP WOULD REASSEMBLE IN 10 DAYS TO ACTUALLY PLEDGE FUNDS. A NUMBER OF DELEGATIONS COMMENTED THAT THIS ISSUE SHOULD BE DISCUSSED AT THE CARIBBEAN CONSULTATIONS IN PARIS ON MAY 16 AND THAT A MEETING THE FOLLOWING WEEK WOULD BE TOO TIGHT A SCHEDULE. BOTH CANADA AND THE U.S. STATED THAT DECISIONS IN THEIR GOVERNMENTS WOULD HAVE TO BE MADE AT CABINET LEVEL AND IN THE U.S. CASE INCLUDED CONSULTATIONS WITH CONGRESS. NEITHER COUNTRY FELT THE 10 DAY PERIOD REALISTIC. THE CONSENSUS EVOLVED THAT JUNE 1 WOULD BE A BETTER DATE. THE GROUP THEN BROKE FOR COFFEE AND REASSEMBLED WITH THE JAMAICAN DELEGATION PRESENT.

8. THE JAMAICAN DELEGATION WAS COMPOSED OF FOUR MEMBERS: ERIC BELL, MINISTER OF FINANCE; HERBERT WALKER, GOVERNER CONFIDENTIAL

PAGE 06 STATE 122758

OF THE BANK OF JAMAICA; HORACE BARBER, PERMANENT SECRETARY OF THE MINISTRY OF FINANCE; AND ALFRED RATTRAY, JAMAICAN AMBASSADOR TO THE U.S. BELL DID ALL THE SPEAKING. AFTER A BRIEF INTRODUCTION BY RYRIE, BELL OUTLINED THE ECONOMIC PROGRAM AND CALLED IT "THE TOUGHEST PROGRAM EVER PUT INTO PLACE BY A JAMAICAN GOVERNMENT." HE NOTED THAT IT WAS BACKED BY MUCH TOUGHER LEGISLATION AND ADMINISTRATIVE POWER THAN THE PREVIOUS IMF STANDBY AGREEMENT. BELL PLACED THE ANNUAL SUPPLEMENTAL FOREIGN EXCHANGE NEED AT \$100 MILLION. HE STRESSED THE SERIOUSNESS OF JAMAICA'S ECONOMIC CRISIS STATING THAT RECOVERY WAS GOING TO BE A PARTNERSHIP BETWEEN PUBLIC AND PRIVATE SECTORS. HE APPEALED FOR INTERNATIONAL HELP AND SUPPORT. THE MEETING WAS THEN OPENED FOR QUESTIONS AND DISCUSSION.

9. A LONG AND DEADLY PAUSE WAS BROKEN BY AN AMERICAN INTERVENTION. MEISSNER COMPLEMENTED THE JAMAICAN GOVERNMENT FOR PUTTING TOGETHER SUCH A COMPREHENSIVE RECOVERY PLAN AND ADMIRING THE POLITICAL COURAGE THAT SUCH A PLAN ENTAILS. HE NOTED THE CLOSE CONTACT THAT EXISTED BETWEEN

THE TWO HEADS OF STATE WHICH HAD RESULTED IN A MUTUAL UNDERSTANDING OF THE PROBLEMS FACING BOTH NATIONS. MEISSNER STATED THE U.S. RECOGNIZED THE SERIOUS PROBLEMS FACING THE JAMAICAN ECONOMY AND PROMISED A CLOSE STUDY OF THE JAMAICAN REQUEST. THE CANADIAN DELEGATE FOLLOWED WITH A SHORT SERIES OF QUESTIONS AND THEN RYRIE WAS FORCED TO INTERVENE WITH SOME POINTS OF DISCUSSION TO COVER THE SILENCE. IN RESPONSE TO RYRIE BELL AGREED THAT ANY MIX OF AID WOULD BE HELPFUL BUT THE PREFERENCE WAS FOR QUICK DISPERSING, UNTIED FOREIGN EXCHANGE. BELL WAS AGREEABLE TO A JUNE 1 DATE BUT BECAUSE OF CONFLICTS HE PERSONALLY COULD NOT TRAVEL TO WASHINGTON. HE NOTED THAT FOR POLITICAL REASONS IT WOULD BE EXTREMELY HELPFUL TO THE JAMAICAN CONFIDENTIAL

PAGE 07 STATE 122758

GOVERNMENT IF PLEDGES COULD BE MADE BEFORE JUNE 8 WHEN HE HAS TO TAKE THE IMPLEMENTING BUDGET TO PARLIAMENT. A SIGNIFICANT SIGN OF OUTSIDE SUPPORT WOULD BE VERY HELPFUL FOR THE ACCEPTANCE OF AUSTERITY IN JAMAICA. RYRIE CLOSED THE SECOND PART OF THE MEETING APPROXIMATELY ONE-HALF HOUR AFTER IT BEGAN.

10. COMMENTS: DURING THE COFFEE BREAK A NUMBER OF DELEGATIONS EXCHANGED VIEWS. THE COMMENTS WERE MUCH HARDER THAN THOSE EXPRESSED IN THE FIRST PORTION OF THE MEETING. GERMANY STATED THEY WOULD NOT BE AT THE JUNE 1 MEETING. FRANCE REITERATED ITS STATEMENT OF NO BUDGETARY POSSIBILITY. CANADA SAID FLATLY IT HAS NO NEW FUNDS AVAILABLE. THE JAPANESE WERE MOVING RAPIDLY THROUGH THE GROUP POLLING WHERE EVERYONE WAS AND HOW COOL THEY WERE TO THE IDEA. GIVEN THESE REACTIONS AND THE FACT THAT AT LEAST \$50 MILLION MUST BE PUT TOGETHER BECAUSE THE IMPACT OF A SMALLER AMOUNT WOULD DISSIPATE, A CONCERTED BILATERAL EFFORT WILL NEED TO BE MADE BY THE U.K. AND THE U.S. SHOULD THE U.S. DECIDE TO JOIN THE U.K. IN THIS ENDEAVOR.

11. IT WAS NOT CLEAR FROM EITHER THE COMMENTS OF THE IMF OR THE IBRD IF POTENTIAL FUNDS ASSOCIATED WITH THE PARIS CARIBBEAN MEETING HAD BEEN INCLUDED IN IMF FIGURES. THESE FUNDS ARE EXPECTED TO BE IN EXCESS OF \$100 MILLION AND MIGHT INVOLVE SOME SUPPORT FOR JAMAICA. THIS POSSIBILITY IS NOW BEING EXPLORED IN WASHINGTON. THE LACK OF A FUND REPORT AND SOLID NUMBERS WILL SLOW U.S. CONSIDERATION OF THIS JAMAICAN REQUEST DISPITE OUR HIGH INTEREST IN THE JAMAICAN ECONOMY.

12. FOR KINGSTON: IMF BOARD ACTION ON JAMAICAN LETTER OF INTENT IS EXPECTED TO BE SCHEDULED FOR JUNE 7 OR 12. IMF LETTER OF INTENT IS BEING POUCHED. WE WILL FORWARD IMF REPORT AS SOON AS IT IS AVAILABLE.

CONFIDENTIAL

PAGE 08 STATE 122758

13. FOR PORT OF SPAIN: TRINIDAD OFFICIAL STRESSED IN
FIRST PORTION OF THE MEETING THAT HE WAS PRESENT ONLY AS
AN UNOFFICIAL OBSERVER. HIS PRESENCE, THOUGH, IN THE
SECOND PART OF THE MEETING WAS DISTINCTLY NOTICED BY THE
JAMAICANS. NAME OF THE OFFICIAL DIDN'T APPEAR ON
ATTENDENCE LIST BUT HE WAS PERSONALLY KNOWN BY MEMBERS OF
THE JAMAICAN DELEGATION. VANCE

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